

1 Amend Section 19814, and add sections 19814.1 and 19832 through 19837 to read:

2 **TITLE 5. Education**

3 **Division 1.5. Education Audit Appeals Panel**

4 **Chapter 3. Audits of California K-12 Local Education Agencies**

5 **Article 2. Audit Reports**

6 **§ 19814. Definitions.**

7 The content of the audit report sections and subsections specified in Section 19813 is
8 as described in the *Codification of Statements on Auditing Standards* published by the
9 American Institute of Certified Public Accountants, the *Codification of Governmental*
10 *Accounting and Financial Reporting Standards* published by the Governmental
11 Accounting Standards Board (GASB), or *Government Auditing Standards* published by
12 the Comptroller General of the United States in the respective editions applicable to the
13 year being audited, or as defined in one of the following:

14 (a) “*Government Auditing Standards*” means the publication by the Comptroller
15 General of the United States, United States General Accounting Office, originally issued
16 in 1972 and revised from time to time, commonly known as the “Yellow Book,” that
17 contains standards for audits of government organizations, programs, activities, and
18 functions and that is referenced in Education Code sections 14501, 14503, and
19 41020(b)(4).

20 (b) “OMB Circular A-133” means the publication, produced by the federal Office of
21 Management and Budget and titled *Audits of States, Local Governments, and Non-Profit*
22 *Organizations*, that sets forth standards for attaining consistency and uniformity in the
23 audits of governments and organizations expending federal awards.

24 (c) “Reconciliation of Annual Financial and Budget Report with Audited Financial

1 Statements” means a schedule that displays the differences between the ending fund
2 balance(s) from the audited financial statements and the unaudited ending fund balance(s)
3 from the annual financial and budget report for each fund in which a variance occurred.

4 (d) “Report on Compliance with Laws and Regulations and on Internal Control Over
5 Financial Reporting Based on an Audit of Financial Statements Performed in Accordance
6 with *Government Auditing Standards*” means the component of the Other Independent
7 Auditor’s Reports that specifies material instances of noncompliance, if any; defines
8 reportable conditions and specifies the reportable conditions disclosed as a result of the
9 audit; defines material weaknesses and specifies the material weaknesses, if any, that
10 were disclosed by the audit; includes a statement that no material weaknesses were found,
11 if that is the case; and includes a statement that nonmaterial noncompliance and
12 nonreportable conditions involving the internal control structure and its operation were
13 communicated to management in a separate management letter, if that is the case.

14 (e) “Report on State Compliance” means the component of the Other Independent
15 Auditor’s Reports that specifically and separately addresses each of the state compliance
16 requirements included in this audit guide that are applicable to the year audited, stating
17 whether or not the district is in compliance with those requirements; includes a chart that
18 displays the number of audit procedures for each compliance requirement applicable to
19 the year audited and states that the audit procedures included in the audit guide for each
20 requirement were followed in the making of the audit, if that is the case, or, if not, what
21 other procedures were followed; and includes an expression of positive assurance with
22 respect to compliance with applicable laws and regulations for those items tested in
23 accordance with those regulations, and negative assurance for untested items.

24 The numbers of audit procedures for the compliance requirements included in this

1 audit guide are

2 Attendance Reporting, 6;

3 Kindergarten Continuance, 3;

4 Independent Study, 22;

5 Continuation Education, 10

6 Adult Education, 9;

7 Regional Occupational Centers and Programs, 6:

8 Instructional Time and Staff Development Reform Program, 7;

9 Instructional Time for school districts, 4, for county offices of education, 3;

10 Community Day Schools, 9;

11 Class Size Reduction general requirements, 7; Option One, 3; Option Two, 4; districts or

12 charter schools with only one school serving K-3, 4;

13 Program to Reduce Class Size in Two Courses in Grade 9 (Morgan-Hart Class Size

14 Reduction Program), 7;

15 Instructional Materials general requirements, 9; K-8 only, 1; grades 9-12 only, 1;

16 Ratios of Administrative Employees to Teachers, 1;

17 Early Retirement Incentive Program, 4;

18 Gann Limit Calculation, 1;

19 State Funded Child Development: Attendance and Family Fees, 8;

20 School Construction Funds: School District Bonds, 3; State School Facilities Funds, 1;

21 Alternative Pension Plans, 2;

22 Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000), 3;

23 State Lottery Funds (California State Lottery Act of 1984), 3;

24 California School Age Families Education (Cal-SAFE) Program, 9.

1 (f) “Report on Compliance With Requirements Applicable to Each Major Program
2 and Internal Control Over Compliance in Accordance With OMB Circular A-133” means
3 the component of the Other Independent Auditor’s Reports that states whether the auditee
4 has complied with federal laws, regulations, and the provisions of federal contracts or
5 grant agreements and has established and maintained effective internal control over
6 compliance with the requirements for major federal programs.

7 (g) “Schedule of Average Daily Attendance” means the schedule in the
8 Supplementary Information section that displays Average Daily Attendance data for both
9 the Second Period and Annual reports, by grade level and program as appropriate.

10 (h) “Schedule of Charter Schools” means the schedule in the Supplementary
11 Information section that lists all charter schools chartered by the school district or county
12 office of education, and displays information for each charter school on whether or not
13 the charter school is included in the school district or county office of education audit.

14 (i) “Schedule of Financial Trends and Analysis” means the schedule in the
15 Supplementary Information section that displays information regarding the auditee’s
16 financial position and going concern status, in the form of actual financial and attendance
17 figures for at least the most recent three-year period (ending with the audit year), plus the
18 current year’s budget, for the following items: General Fund financial activity, including
19 total revenue, expenditures, and other sources and uses; General Fund balance; available
20 reserve balances (funds designated for economic uncertainty, and any other remaining
21 undesignated fund balance) within the General Fund, Special Reserve Fund, and any
22 Article XIII-B Trust Funds; available reserve balances expressed as a percentage of total
23 General Fund outgo (expenditures, transfers out, and other uses), including a comparison
24 to the applicable state-recommended available reserve percentage; total long-term debt;

1 and elementary and secondary Second Principal Average Daily Attendance, excluding
2 Regional Occupational Centers and Programs and Adult Average Daily Attendance; and,
3 when the auditee's percentage of available reserves to total General Fund outgo is below
4 the state-recommended percentage, management's plans for increasing the auditee's
5 available reserve percentage.

6 (j) "Schedule of Findings and Questioned Costs" means that part of the Findings and
7 Recommendations section that presents all audit year findings, and a copy of each
8 management letter issued, if any, with each finding assigned the appropriate code from
9 among the following: 10000 Attendance, 20000 Inventory of Equipment, 30000 Internal
10 Control, 40000 State Compliance, 50000 Federal Compliance, 60000 Miscellaneous, and
11 includes the following elements:

12 (1) criteria

13 (2) condition

14 (3) effect

15 (4) cause

16 (5) a statement of the number of units of Average Daily Attendance, if any, that were
17 inappropriately reported for apportionment; and a statement consistent with its basis of
18 funding, for any other inappropriately reported claim—such as number of staff
19 development days, or number of pupils for Class Size Reduction, or amount in dollars for
20 Instructional Materials, and so forth

21 (6) a recommendation for the resolution of the finding

22 (7) a corrective action plan prepared by the auditee that describes in specific terms the
23 actions planned or taken to correct the problem, or a statement from the auditee that the
24 corrective action recommended by the auditor is not necessary or appropriate and giving

1 the specific reasons why, if that is the case, and a statement that the corrective action plan
2 was not available if no corrective action plan was submitted before the audit report was
3 prepared.

4 (k) “Schedule of Instructional Time” means the schedule in the Supplementary
5 Information section that displays, for all auditees, including basic aid districts, data that
6 show whether the auditee complied with the provisions of Article 8 (commencing with
7 Section 46200) of Chapter 2 of Part 26 of the Education Code.

8 (l) “Schedule of Prior Audit Findings” means that part of the Findings and
9 Recommendations section that presents the status of actions taken by the auditee on each
10 of the findings and recommendations reported in the prior-year audit, and includes as
11 current year findings and recommendations those prior year findings that have not been
12 resolved.

13 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
14 14502.1, 14503 and 41020, Education Code.

15 **§ 19814.1. Applicability of Audit Procedures by Audit Year.**

16 Of the compliance requirements set forth in Article 3:

17 (a) Sections 19815 through 19831 are applicable to audits of school year 2003-04;

18 (b) Sections 19815 through 19837 are applicable to audits of school year 2004-05.

19 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
20 14502.1, 14503 and 41020, Education Code.

21 **Article 3. State Compliance Requirements**

22 **§ 19832. State Funded Child Development: Attendance and Family Fees.**

23 If the local education agency operated any center-based state-funded child care and
24 development program during the year audited, perform the following audit procedures:

1 (a) Attendance

2 (1) Verify the mathematical accuracy of the data submitted to the California
3 Department of Education pursuant to Section 18068 in the June final attendance report,
4 which includes the cumulative data for the year audited.

5 (2) From the enrollment and attendance registers that support the data submitted to
6 the California Department of Education pursuant to Section 18068 for the year audited,
7 select a representative sample.

8 (A) Verify the mathematical accuracy of the data recorded.

9 (B) Verify that the enrollment, attendance, including attendance credited for excused
10 absences pursuant to subdivision (e) of Education Code Section 8208, and days of
11 operation were correctly recorded in the enrollment and attendance registers by tracing to
12 supporting documentation, including, but not limited to, the form specified in sections
13 18081(d), 18094, and 18095; and the sign-in/sign-out sheets required by Section 18065.

14 (3) Select a sample of excused absences.

15 (A) Verify that each excused absence is supported by documentation as required by
16 Section 18066.

17 (B) Verify that not more than 10 excused absences “in the best interest of the child”
18 (Section 18066(c)) were claimed for any one child during the contracted period, except
19 for children who were recipients of protective services, or at risk of abuse, neglect, or
20 exploitation, as documented pursuant to Section 18092 and subdivision (k) of Education
21 Code Section 8208.

22 (4) Prepare a schedule displaying any inappropriately reported days of enrollment
23 (include the unadjusted days, the adjustment factor pursuant to Education Code sections
24 8265.5 and 8266.1, and the adjusted days), days of attendance, and days of operation, and

1 the appropriate numbers of days of enrollment, attendance, and days of operation.
2 Include the schedule in the Findings and Recommendation section of the audit report.

3 (b) Family Fees

4 (1) From the local education agency's enrollment and attendance registers, select a
5 representative sample of children whose parents were charged a family fee.

6 (A) Verify that the correct family fee rate was charged, by reviewing information
7 contained in the basic data file required by Section 18081 that was used to determine the
8 family fee as prescribed by Section 18109 and following, and by referring to the rates on
9 the family fee schedule required by Section 18108 that was applicable to the year audited.

10 (B) Verify that the family fees were deposited in the local education agency's child
11 development fund in accordance with the provisions of Section 18064 and Education
12 Code Section 8328.

13 (C) Verify that the family fees collected were reported appropriately to the California
14 Department of Education.

15 (2) Prepare a schedule displaying any incorrect fee amounts that are identified
16 through the foregoing procedures along with the correct amounts, and applicable fees that
17 were not collected. Include the schedule in the Findings and Recommendation section of
18 the audit report. Include in the schedule a notation to indicate any instance in which it is
19 found that documentation was insufficient to determine a correct fee amount.

20 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
21 14502.1, 14503 and 41020, Education Code.

22 **§ 19833. School Construction Funds.**

23 (a) School district bonds.

24 (1) Verify that the proceeds from the sale of bonds issued pursuant to the provisions

1 of Education Code Section 15140 were deposited in accordance with the provisions of
2 Education Code Section 15146.

3 (2) Verify that bond proceeds were expended only for the purpose(s) for which the
4 bonds were issued, as specified in the official statement or statements of bond indenture
5 submitted by the school district governing board to the county auditor or county treasurer.

6 (3) Verify that any money transferred to the general fund of the district from the
7 interest and sinking fund was transferred in compliance with the provisions of Education
8 Code Section 15234.

9 (4) If any proceeds from the sale of bonds are found to have been deposited
10 inappropriately or to have been expended for purposes other than those specified in the
11 official statement or statements of bond indenture, or if any money is found to have been
12 transferred inappropriately from the interest and sinking fund, include a finding in the
13 Findings and Recommendations section of the audit report stating the amount
14 inappropriately deposited, expended, or transferred.

15 (b) State School Facilities Funds.

16 (1) Verify that expenditures of funds from the school district's account in the county
17 school facilities fund were made only for qualifying school facilities expenditures as
18 provided in subdivision (c) of Education Code Section 17070.43 and additionally set
19 forth in Education Code Section 17072.35, or in Education Code Section 17074.25 as
20 further defined in subdivision (f) of Education Code Section 17070.15; or for other high
21 priority capital outlay purposes in accordance with the provisions of subdivision (c) of
22 Education Code Section 17070.63.

23 (2) If any expenditures of funds from the school district's account in the county
24 school facilities fund are found to have been made for non-qualifying purposes, include a

1 finding in the Findings and Recommendations section of the audit report stating the
2 amount inappropriately expended.

3 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
4 14502.1, 14503 and 41020, Education Code.

5 **§ 19834. Alternative Pension Plans.**

6 (a) As used in this section, “alternative pension plan” means a pension plan not
7 administered by the California Public Employees Retirement System (Government Code
8 Section 20000 and following) or the State Teachers Retirement System (Education Code
9 Section 22000 and following).

10 (b) Determine whether the local education agency has created an entity or joined a
11 joint powers authority that provides for an alternative pension plan for its permanent, full-
12 time employees.

13 (c) If the local education agency has done so, discuss the following information in the
14 note disclosure in the Notes to the Basic Financial Statements:

15 (1) The date the entity was created or the joint powers authority was joined by the
16 auditee.

17 (2) The purpose of the entity or the joint powers authority as stated in the document
18 memorializing the creation of the entity or in the joint powers authority agreement.

19 (3) The number of local education agency employees who have separated from the
20 local education agency and then been employed by the created entity or joint powers
21 authority, and the nature of the services that these persons are providing to the local
22 education agency.

23 (4) Whether the employees of the local education agency, created entity, or joint
24 powers authority have a choice of selecting the alternative pension plan or one or the

1 other of the California Public Employees Retirement System and State Teachers
2 Retirement System.

3 (5) Whether the employees who have elected to participate in the alternative pension
4 plan have continued to participate in the California Public Employees Retirement System
5 or State Teachers Retirement System, and whether those participating in the California
6 Public Employees Retirement System have continued to contribute to Social Security.

7 (6) Whether any element of the benefit package provided by the alternative pension
8 plan materially exceeds its counterpart in the benefit package provided by the California
9 Public Employees Retirement System or State Teachers Retirement System.

10 (7) The amount the local education agency paid to the created entity or joint powers
11 authority for management or administrative fees for the year audited.

12 (8) The address for obtaining copies of the created entity's or joint powers authority's
13 financial statements.

14 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
15 14502.1, 14503 and 41020, Education Code.

16 **§ 19835. Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000).**

17 Determine the amount of the Proposition 20 restricted lottery allowance received
18 from the State Controller.

19 (a) Verify that the allowance received was accounted for separately.

20 (b) From the expenditures of the Proposition 20 restricted lottery allowance funds,
21 select a sample and verify that they were for instructional materials as defined in
22 subdivisions (h), (m), or (n) of Education Code Section 60010.

23 (c) If any expenditure was not for instructional materials, include its amount in a
24 finding in the Findings and Recommendations section of the audit report.

1 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
2 14502.1, 14503 and 41020, Education Code.

3 **§ 19836. State Lottery Funds (California State Lottery Act of 1984).**

4 Determine the amount of the non-Proposition 20 lottery allowance received from the
5 State Controller.

6 (a) Verify that the allowance was accounted for separately as required by subdivision
7 (k) of Government Code Section 8880.5.

8 (b) From the expenditures of the non-Proposition 20 lottery allowance funds, select a
9 sample and determine whether any funds were used for the acquisition of real property,
10 construction of facilities, or financing of research.

11 (c) If any non-Proposition 20 lottery funds are identified as having been expended for
12 the acquisition of real property, construction of facilities, or financing of research,
13 include the amount of the expenditure in a finding in the Findings and Recommendations
14 section of the audit report.

15 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
16 14502.1, 14503 and 41020, Education Code.

17 **§ 19837. California School Age Families Education (Cal-SAFE) Program.**

18 If the school district, county office of education, or charter school received Cal-SAFE
19 funds for the audited year, perform the following procedures.

20 (a) Cal-SAFE Supportive Services

21 Review the supporting documentation for the annual data reported to the California
22 Department of Education.

23 (1) Verify that the reported annual data reconciles to supporting documentation by
24 tracing the Average Daily Attendance numbers from the annual report to the local

1 education agency's summaries and verifying the Average Daily Attendance calculations
2 for each reporting item.

3 (2) Select a representative sample of Cal-SAFE pupils and trace, to the data
4 origination documentation, their Average Daily Attendance included in the total annual
5 Average Daily Attendance reported to the California Department of Education. Verify
6 the mathematical accuracy of the attendance registers, scantron summaries, or other data
7 arrays.

8 (3) Verify that the school district, county office of education, or charter school did not
9 claim support services allowances for units of Average Daily Attendance reported for any
10 of the following:

11 (A) pupils attending county community schools operated pursuant to Chapter 6.5 of
12 Part 2 (commencing with Section 1980) who are deemed, pursuant to subdivision (b) of
13 Education Code Section 1982, to be enrolled in juvenile court schools for the purpose of
14 making apportionments;

15 (B) pupils attending juvenile court schools operated pursuant to Article 2.5
16 (commencing with Section 48645) of Chapter 4 of Part 27;

17 (C) pupils attending community day schools operated pursuant to Article 3
18 (commencing with Section 48660) of Chapter 4 of Part 27.

19 (4) Determine whether any pupils were concurrently enrolled in more than one
20 educational program. Select a representative sample of such pupils. Verify that not more
21 than one unit of Average Daily Attendance generated by each pupil was reported for
22 support services allowance claims.

23 (5) If any inappropriately reported units of Average Daily Attendance are identified
24 through the foregoing audit procedures, recalculate the number of support services

1 allowances. Include a statement in the Findings and Recommendations section of the
2 audit report of the correct number of support services allowances and the dollar value of
3 the inappropriately claimed support services allowances.

4 (6) Verify that state funds allocated for support services were maintained in a separate
5 account as required by subdivision (b) of Education Code Section 54749.

6 (7) Verify that funds generated pursuant to Education Code Section 2551.3,
7 subdivision (b) of Education Code Section 54749.5, and Education Code Section 54749
8 were maintained in a separate account as required by subdivision (d) of Education Code
9 Section 54749.

10 (8) If any support services funds are found not to have been maintained in a separate
11 account, include a finding in the Findings and Recommendations section of the audit
12 report stating the amount of such funds and identifying the fund in which the support
13 service funds were inappropriately deposited.

14 (b) Cal-SAFE Child Care and Development Services

15 Review the supporting documentation for the data reported to the California
16 Department of Education.

17 (1) Verify that the days of enrollment and the days of attendance reported to the
18 California Department of Education reconcile to the enrollment forms and daily sign-in
19 sheets.

20 (2) Verify that the days of operation reported to the California Department of
21 Education are the actual number of days the child care was in operation.

22 (3) If any inappropriately reported days of enrollment, days of attendance, or days of
23 operation are identified through the foregoing audit procedures, include a finding in the
24 Findings and Recommendations section of the audit report stating the number of

1 inappropriately reported days of enrollment, days of attendance, and days of operation.

2 (4) Verify that funds allocated for child care and development services were
3 maintained in a separate account as required by subdivision (c) of Education Code
4 Section 54749.

5 (5) If any funds allocated for child care and development services are found not to
6 have been maintained in a separate account, include a finding in the Findings and
7 Recommendations section of the audit report stating the amount of such funds and
8 identifying the fund in which the funds were inappropriately deposited.

9 NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections
10 14502.1, 14503 and 41020, Education Code.